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MEMORANDUM FOR:

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The attached data was passed in sections to [redacted] during 22-25 January in response to a specific request.

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[redacted]

Chief, Near East/Africa Branch
Developing Nations Division
Office of Economic Research

[redacted]

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Sub-Saharan Africa: Threat of Rising Oil Prices

Introduction

Rising international oil prices threaten economic progress in the developing Sub-Saharan African countries. Declining growth in the European, Japanese and US economies is likely to depress international prices for the principal African exports of primary products, and to reduce foreign aid and investment vital to development programs. Increased bills for petroleum, a major fuel for the small modern sectors, will further strain already shaky foreign payments balances of many African countries. Cutbacks in oil imports and/or steep increases in domestic oil prices will undermine the small businesses that make up the heart of the modern sectors.

The near-unanimous support by the African states of the Arabs against Israel and the low reliance on oil for generating electric power and for subsistence agricultural will partly offset the adverse effects of the oil price increases. Arab economic aid could possibly supplement that from developed countries although the Arab response so far has been limited.

Dependence on Oil Imports

Except for the major producing countries -- Nigeria, 25X1

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Angola, and Gabon -- the Sub-Saharan states rely for oil on imported European refined products and Arab crude. Combined imports of crude and products averaged 330,000 bpd in 1971, meeting 80% to 85% of domestic demand. (See Table 1) Growth of consumption at 5%
-375,000
to 10% annually would raise imports to 350,000/bpd in 1973. Sub-Saharan crude oil production, at more than two million b/d, far surpasses the small needs of African states. Formidable problems of refining and distribution and Nigerian reluctance to grant concessionary terms to potential African customers will forestall any significant re-routing of this oil from current western customers.

Impact on Trade

If the demand for oil were unresponsive to price changes, the high oil prices imposed in 1974 would triple the combined cost of petroleum imports by the less-developed Sub-Saharan countries. (See Table 2) All of the 39 non-producing countries would be adversely affected, but the capability of individual states to absorb the added costs would vary widely. Foreign exchange reserves and generally favorable trade balances would carry seven of the states for a year or so, despite their moderately heavy reliance on oil imports. (See

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Table 1

Sub-Saharan Africa: Less Developed Countries' Dependence on Petroleum Imports, 1971

Thousand b/d a/

	Crude				Refined		
	Supply		Demand		Supply	Demand	
	Production	Imports	Exports & Re-exports	Refinery Throughput	Imports	Domestic b/ Consumption	Exports & Re-exports
Total	1,760	210	1,680	280	120	310	80
West Africa	1,650	80	1,590	140	40	150	20
East Africa	None	110	None	110	60	120	50
Southern Africa c/	110	20	90	30	20	40	10

a. Components may not add to totals due to rounding.
b. Includes bunkering.
c. Excludes South Africa.

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Table 2

Sub-Saharan Africa: Estimated Costs of Petroleum Imports, 1971 and 1974 a/

	1971	1974
Total annual costs (Million US $)	500	1,500
Crude imports (b/d)	210	230
Price (US $/b)	2.31	9.68
Cost (Million US $)	180	810
Refined imports (b/d)	120	130
Price (US $/b)	7.31	14.68
Cost (Million US $)	320	690

a. Assumptions are that oil imports increased by 5% annually during 1971-74, and that demand for oil is price inelastic. South African imports are excluded.

Table 3) The impact on the trade position of the remaining 32 non-producing importers would be severe. The foreign exchange reserves of these states averaged less than $20 million per country in 1972 and their combined adverse trade balance totaled more than $1 billion. If they maintained previous levels of oil imports in 1974, their average negative trade balance would be increased 50%. Without concessionary prices or increased aid, a cutback in consumption appears inevitable.

<u>The African Gainers</u>

Although pledged not to increase production to benefit from the oil crisis, Nigeria has nevertheless gained handsomely. Its high quality, non-embargoed oil is in greater demand than ever and has sold for record prices. Government-owned oil recently went for $22.60 per barrel. In addition, Nigeria has raised the posted price for its crude twice since the embargo began. The new posted price of $14.69 raises Nigeria's take to about $8.60 a barrel, versus about $2.35 a barrel before the first price increase in November. Nigerian government revenues from oil are estimated at $7.9 billion in 1974, more than three times the 1973 figure.

Effects of the embargo on the other Sub-Saharan

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Table 39

Sub-Saharan Africa: Less Developed Countries' Foreign Exchange, Trade, and Oil Imports a/

Million US $

	Gold and Foreign Exchange (1972)	Trade (1972)			Oil Imports b/	
		Exports	Imports	Balance	1971	1974
Total	2,500	10,310	10,530	-220	500	1,500
Three producing countries	550	2,945	2,090	855	30	65
39 non-producing countries	1,950	7,365	8,440	-1,075	470	1,435
Seven with modest reserves	1,295	3,205	2,995	210	205	730
Ethiopia	165	155	195	-40	15	60
Ghana	180	490	375	115	20	85
Ivory Coast	115	600	465	135	20	90
Kenya	315	330	500	-170	55	220
Tanzania	140	285	355	-70	45	140
Zaire	160	605	560	45	20	75
Zambia	220	740	545	195	30	60
32 with very limited reserves	655	4,160	5,445	-1,285	265	705

a. Excluding South Africa.

b. Because data for Sub-Saharan countries are incomplete, estimates for 1971 are based on the volume of imports and average prices for Arab crude and European products. For some countries the estimates may vary from the actual import costs. Projections for 1974 assume a 5% annual increase in the volume of imports since 1971, and constant prices equal to the posted price on 1 January 1974.

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producers -- Angola, Congo, and Gabon -- has been mixed. Angola, as a Portuguese province, is included in the Arab embargo of Portugal and its oil production of about 160,000 b/d is subject to Portuguese demand for domestic use. Although the Congo is a modest producer of oil -- 39,000 bpd in 1973 -- it has no refinery and is suffering from a shortage of imported petroleum products. Gabon has fared better. Production is about 145,000 bpd, and provides about one-fourth of GDP. In recent months, Gabon increased the posted price for its oil, became an associate member of OPEC, and moved to increase government participation in the foreign oil companies. There are also a large number of potential African oil producers. Extensive exploration has been carried out and discoveries have been made in a number of countries. If prices remain high, exploitation of discoveries now considered uneconomic may become commercially feasible providing the countries with much needed foreign exchange.

<u>OPEC Relief</u>

The Black African countries have given nearly unanimous support to the Arabs -- only Lesotho, Swaziland, Malawi and Mauritius still have formal ties with Israel -- and are now moving to cash in on the Arab promises of

assistance given at the Algiers summit in No' .mber. At the minimum, the OAU is seeking to negotiate a long-term agreement with Arab producers to supply oil directly to each OAU member state. Several African countries -- Zambia and Zaire for example -- have already concluded special state-to-state supply deals with the oil producers. The Africans will also press for concessionary oil prices, but are not optimistic on this issue.

The Arabs have made some small provisions for meeting African demands for aid. An Arab Bank for Industrial and Agricultural Development in Africa has been capitalized at $195 million and a $15 million technical assistance fund has been established. There have also been reports of possible joint Arab/African projects in several countries, particularly in the mineral processing and refining industries.

Future African Energy Supply and Demand

The African countries are scrambling to find secure sources of petroleum imports, preferably at concessionary prices. A number of countries have approached Nigeria, hoping to buy oil at low prices. Nigeria, with a per capita annual income of only about $125, however, badly needs oil revenues for its own development and has not

been willing to lower prices. The countries have been more successful in negotiating country-to-country supply deals with Arab producers, but not at concessionary prices. Some countries may be successful in arranging barter deals with the Arabs. Ivory Coast has made arrangements with Algeria to trade traditional exports for oil if supplies fall short. Bureaucratic bungling and a lack of understanding of the world petroleum situation may add to African shortages. Dahomey, for example, is now suffering a fuel crisis, since the oil companies have refused to continue to import petroleum products at low government-controlled prices. Senegal has announced it will freeze prices of petroleum products. For countries unable to arrange special deals for oil, supplies will certainly fall, as the western oil companies ship to consumers who are more willing and able to pay the going rate.

Africa already has a limited demand for petroleum relative to other areas because of its lack of development and the availability to other energy sources. Demand will be curtailed further if prices remain high. Some examples of fuel conservation measures already instituted include rationing in Sudan and Mozambique, reduced hours

for gas stations in Malawi and Botswana, increased prices in Mali and Kenya, reduced bunkering in Liberia and Ghana, and reduced fuel allocations to airlines in Zaire. Slowed development, brought on by increased fuel prices, will in itself retard the growth of petroleum consumption.

Impact on African Growth and Development

Increased petroleum prices virtually eliminate prospects for significant economic growth during 1974 in a majority of the African less-developed countries. Economic activity in African countries is heavily trade oriented and closely geared to the economies of major trading partners in Western Europe. Foreign exchange -- already scarce in most African countries -- will be even scarcer because of increased prices for petroleum as well as for finished products from the industrialized countries. Exchange earnings are further threatened by prospects of receiving lower prices for primary commodities because of reduced demand. Lower growth in industrial countries also could erode the flow of foreign aid -- approximately $1.8 billion annually -- and investment. These factors will strike hardest at the small modern sectors that represent the Africans' greatest hopes for development.

Increased government control of foreign enterprises

in the African countries will be accelerated as a result of the Arab embargo. Zaire and the Congo have nationalized foreign petroleum distribution companies since the embargo. Other countries, noting the success of OPEC in increasing oil prices, are considering the forming of similar cartels to keep prices high on their export commodities. The major African copper producers -- Zaire and Zambia -- are already members of the Intergovernmental Council of Copper Exporting Countries (CIPEC). Major bauxite producing countries plan to meet in Guinea in February to attempt to form a producers organization.

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Impact of Higher Oil Prices on Six Selected African Countries

The oil import bill for six selected African countries -- Ghana, Ethiopia, Kenya, Mali, Zaire, and Zambia -- will be about $500 million in 1974, three times the 1971 cost. Each of the countries will suffer from 1974's higher oil prices, but they have widely varying capabilities to cope with the situation.

Several countries have foreign exchange reserves and export earnings adequate to carry them for a year or more, while others are less fortunate. (See Table 4) Zambia's trade surplus has been more than sufficient to cover the increased cost of oil imports. At the other extreme, Mail has no foreign exchange reserves, runs a trade deficit without the increased oil costs, and has an external debt more than 10 times its annual exports. The other countries fall somewhere in between. Ghana may be able to maintain a small trade surplus even with the increased oil prices. Zaire's small trade surplus will be reversed, the size of the deficit depending on copper prices. Ethiopia's deficit will increase to about $125 million. Kenya's trade deficit will increase, but not the full amount of the increment to the oil import bill since Kenya refines and re-exports

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Table 4

Sub-Saharan Africa: Trade and Payments Positions of Selected Countries in 1972

	Ghana	Ethiopia	Kenya	Mali	Zaire	Zambia
Imports (million US$)	375	195	500	69	560	545
Of which (percent):						
Transport equipment and machinery	25	33	39	28	31	42
Manufactured goods	30	30	25	23	28	31
Chemicals and crude materials	20	16	15	6	14	10
Food and beverages	12	13	12	34	21	10
Petroleum	13	8	9	9	7	7
Exports (million US$)	490	155	330	28	605	740
Of which (percent):						
Minerals	15	--	--	--	79	96
Manufactured goods	1	--	12	2	3	1
Agricultural goods	80	100	70	75	18	1
Other	4	--	18	23	--	2
Trade balance (million US$)	115	-40	-170	-41	45	195
Gold and foreign exchange reserves (million US$ June 1973)	180	165	315	0	150	220

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Table 4 (continued)

Sub-Saharan Africa: Trade and Payments Positions of Selected Countries in 1972

	Ghana	Ethiopia	Kenya	Mali	Zaire	Zambia
Major foreign exchange earner	Cocoa	Coffee	Tourism, coffee	Cotton, peanuts	Copper	Copper
External debt (million US$ end 1971)	822	205	265	293	290	538
External debt as % exports	168	132	80	1,046	48	73

about 40% of the imported crude.

Foreign exchange resources will be strained further by increased prices of finished products imported from industrialized countries. Machinery, transport equipment and manufactured goods make up over half of the imports of each of these countries. Increased oil import costs plus anticipated increases in the costs of non-oil imports could boost the total import bill of these countries by about one-third.

Financing increased import costs will be made more difficult by a decrease in export earnings in at least half of the six countries. Because of slower growth expected in the developed countries, a decline in world-wide demand for copper will cut export earnings in Zambia and Zaire. Tourism, Kenya's major foreign exchange earner, has already begun to suffer. Demand for the other countries' major exports -- cocoa, coffee, cotton and peanuts -- probably will be largely unaffected. Increased fertilizer costs will not be significant in the imports of the selected countries. The cost of internal transport will be increased and service may be subject to disruption.

Each of the selected countries receives foreign aid (largely from western Europe), the amount of dependence

on aid varying. (See Table 5) In Mali annual aid almost equals total exports; in Zambia aid is only about 3% of the value of exports. Each country will face a further squeeze on its ability to pay increased import costs if foreign aid commitments from developed countries are reduced more than new Arab aid.

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Table 5

Sub-Saharan Africa: Dependence on Foreign Aid of Selected Countries

	Ghana	Ethiopia	Kenya	Mali	Zaire	Zambia
Total aid a/ (million US$)	61.26	47.21	71.25	24.65	87.74	20.19
Aid per capita (dollars)	7.34	1.91	6.54	5.05	4.90	5.02
Aid as % of GNP	3.9	2.7	5.0	5.6	5.4	1.7

a. Net annual average receipts from DAC countries and from multilateral agencies 1969-71.

Comments on the Libyan Aid Program in Sub-Saharan Africa

The Libyan aid program in Sub-Saharan Africa represents a sharp departure from previous Libyan foreign assistance practices. During the early years of the RCC, when Libyan aid went mainly to other Arab countries and to dissident groups favored by Qadhafi, direct grants or loans from the Libyan Treasury or direct Libyan state outlays for goods and arms were the rule. Since the African aid program got underway in 1972, project aid has predominated with hundreds of millions of dollars committed but little money actually disbursed.

By funding the African aid program through the Libyan External Bank (LEB), the government hopes to minimize the drain on the Libyan state treasury, and to forestall charges that Libya's patrimony is being squandered on others. Created a little over a year ago with Libyan state funds, the LEB now functions as an investment bank, borrowing widely to finance Libyan government projects in other countries. Branches have been set up in Mauritania and Uganda and at least two others are being planned for Sub-Saharan Africa. Thus far branches have been capitalized at about $200 million each with Libya providing a $100 million share directly and lending

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another $100 million to the client state for its share of the equity.

The Libyan aid program in Africa may never get off the ground. Most client states are finding it difficult to plan and present projects in accordance with Libya's exacting standards. The Libyans, on the other hand, are having difficulty finding sufficient qualified personnel to staff the branches of the LEB and to supervise disbursement of project aid. Originally Libya had counted on Egypt to provide the requisite personnel and, before the post-war Sadat/Qadhafi rupture, numerous Egyptian professionals had been sent to Uganda and other African countries to staff "Libyan" projects. Now that he is no longer in a position to requisition Egyptian technicians, Qadhafi is desperately seeking a substitute source. This search no doubt explains, in part, his efforts to associate Libya and Malta economically and his attempt to unify with Tunisia.

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